INTERACTIVE GUIDE to Church Finance

AG Financial Solutions℠

INTRODUCTION

When you set your church up to be financially strong, you are equipping it to accomplish its God-given ministry calling. Though every church's calling is unique, those that are financially sound have several things in common:

Follow Good Financial Practices

Healthy budgeting and accounting practices lay a foundation of financial stability for your church, allowing you to keep your focus on ministry. **Part 1: The Books** is all about core best practices for your ministry's financial health and sustainability.

Prepare for the Unexpected

Once you have solid financial practices in place, it's time to protect your ministry from the unexpected. **Part 2: Be Ready** outlines risk management practices and the role insurance plays in supporting ministry. You have been entrusted with providing a safe place for people to learn, worship, and minister. This section gives you the tools.

Plan Strategically for Growth

As your ministry grows, new financial challenges arise. The larger your operating budget, the more important internal controls become. Planning in advance will help your ministry overcome many of these challenges. That's where **Part 3: What's Next** can help. By learning to plan strategically for ministry expansion, you'll be equipped for what's ahead.

NOT A NUMBERS PERSON? NOT TO WORRY.

This guide is designed with you in mind. We've included many tips, best practices, and step-by-step instructions. If you're interested in knowing more about a topic, click the **Dig Deeper** links for additional resources such as templates, videos, and useful downloads.

Our goal at AG Financial Solutions is to resource churches with the financial products and education needed to increase financial strength and long-term ministry impact. We trust this information will help lay a strong financial foundation for your growing ministry. If you need additional information, don't hesitate to contact us at **info@agfinancial.org** or **866.855.1857**.

1

2

3

THE BOOKS

Budgeting: Plan. Make. Follow.
Saving: Cash Flow. Laddering.
Accounting: Statements. Checks & Balances.

BE READY

Risks: Identify. Control. Policies.
Insurance: Liability. Property. Agency.

WHAT'S NEXT

Expanding: First Steps. Planning. Budgeting.
Funding: Fundraising. Borrowing. Challenges.

PART 1

The BOOKS



Good budgeting and accounting practices lay the foundation for the long-term financial stability and sustainability of your church, allowing you to keep your focus on ministry. Financial management can be intimidating, but it doesn't have to be. Beginning with budgeting and saving, then walking through accounting best practices, this section provides easy-to-follow steps and tips to keep your ministry financially healthy.

Your **BUDGET** is the **FINANCIAL FOUNDATION** for **your CHURCH** and is a **tool** to help **you REACH** your **church's GOALS.**



BUDGET PLANNING is the first step in good church financial management. A budget provides a way to track income and expenses, giving you the information necessary to make strategic financial decisions.

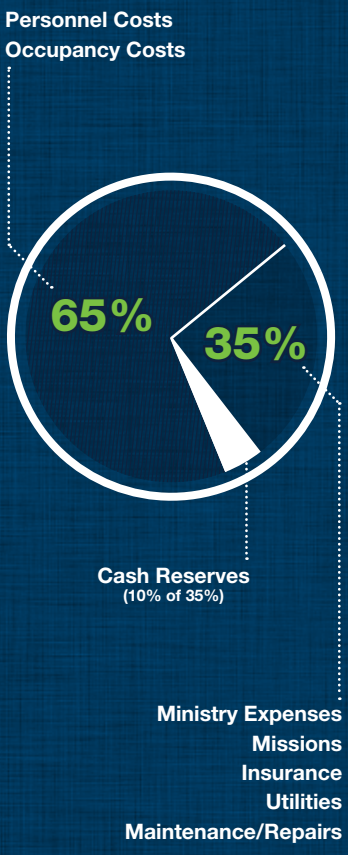
MAKING PROJECTIONS

START YOUR BUDGET AT ZERO.

Evaluate each expense line item independently based on need and the overall vision of your church. Next, look at your monthly revenue. Include unrestricted contributions (tithes and offerings) and other potential revenue streams such as rental income or tuition in your projections. Look at past monthly giving trends for guidance. Budget monthly revenue conservatively to reduce the likelihood of a cash shortfall and coordinate larger purchases with higher giving months.

HOW DO WE PAY FOR X?

The expense percentages given in the pie chart are **maximums**. They can be lowered to fit your church's priorities. If you want to increase missions giving, pay for a new sound board, or fund an outreach initiative, you may need to lower other expenses. Aim to keep personnel costs to one-third of the operating budget.



Personnel costs are easy to measure, as staffing needs and compensation should be well established before the fiscal year begins. A church should dedicate no more than 45% of undesignated income. A healthy benchmark to aim for is 33%.

Occupancy costs include mortgage debt service (principal and interest), lease expense, utilities, telephone, insurance, repairs, maintenance, etc. These monthly payments should be known upfront. Occupancy costs should not exceed 25–30% of undesignated income.

Office expenses including advertising, printing, postage, small equipment, etc., should take no more than 10% of undesignated tithes and offerings. Keep a running log of depreciable church assets (furniture, computer equipment, etc.). Estimate when they will need repair or replacement, and set aside a portion of these costs each month.

As you plan your budget, consider salary increases, hiring, layoffs, new programs, capital projects, and major fundraising efforts or campaigns. In addition, identify any expected monthly increase in expenses, such as insurance premiums.

Most importantly, consider revenue and expenses on a monthly basis so your budget reflects expected fluctuations in cash flow. Past monthly financial statements can help you plan for these variations. Considering all these factors will increase the accuracy of your annual budget projections and cash flow timing.

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DOWNLOAD THE CHURCH BUDGET TEMPLATE.

FOLLOWING THE BUDGET

TOP 3 QUESTIONS

WHEN SHOULD WE PLAN THE BUDGET?

Many churches plan the budget on an annual basis, beginning the process in October, if they use the calendar year as their fiscal year. This gives adequate time to evaluate expenses, project income, etc. Plan to have everything finalized and approved before January 1 or the first day of your fiscal year.

HOW OFTEN SHOULD WE LOOK AT THE BUDGET?

Monthly. Meet with staff and lay leaders to compare budget performance with actual numbers. This will help identify overspending and ensure funding needs are met throughout the year.

WHAT IF BUDGETED AMOUNTS DON'T MATCH UP WITH ACTUAL NUMBERS EVERY MONTH?

Look at the big picture. Even if your projected and actual amounts don't match up every month, the most important thing is to maintain positive cash flow overall. Savings in one month could offset an overage in a future month.

BUDGETING CHECKLIST

☐ DEFINE YOUR GOALS.

Start your budget planning by clearly listing out church goals and objectives for the year.

☐ START WITH ZERO.

Evaluate each line item (budget category) by itself based on need and the goals of your church.

☐ PROJECT MONTHLY REVENUE.

Include every area of projected income such as tithes, offerings, rental income, tuition, etc.

☐ PROJECT MONTHLY EXPENSES.

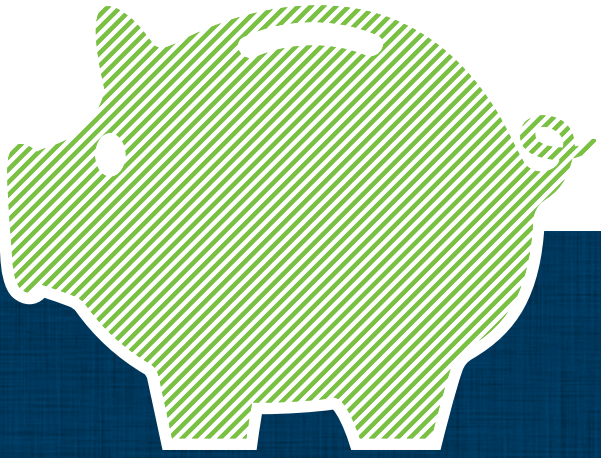
List each key expense including personnel costs, occupancy costs, office expenses, insurance, and miscellaneous expenses. Time special projects and known capital expenditures carefully in conjunction with expected revenue.

☐ PROJECT AND BUILD CASH RESERVES.

Subtract total expenses from revenue. The result should be a net positive cash flow (more money coming in than going out). Set aside these extra funds to build your cash reserves, equipping your ministry to better achieve future goals and cover unforeseen expenses.

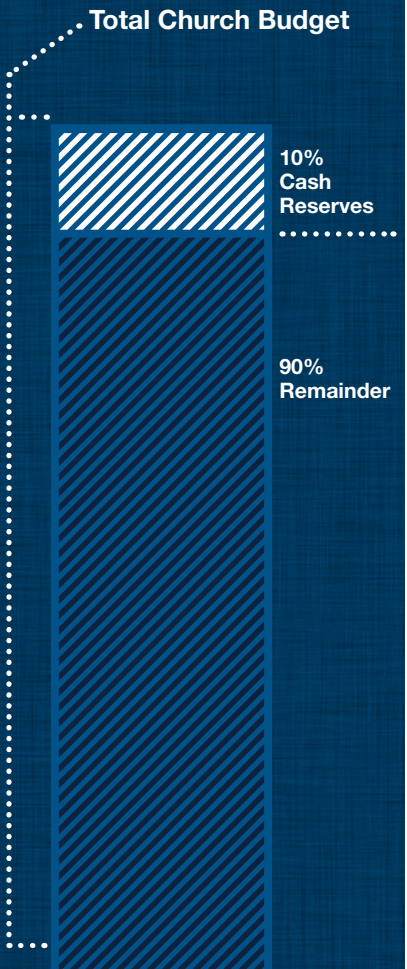
☐ FOLLOW YOUR BUDGET.

Ensure that those responsible for departmental budgets are aware of expectations and meet with key personnel each month to evaluate projected amounts against actual spending.



SAVING

Saving is
CRUCIAL
to ministry
PROTECTION
and GROWTH.



Your budget should provide for a positive cash flow, enabling you to save on a consistent basis. A cash reserve is important because it:

PROTECTS AGAINST

- Unexpected expenses
- Declines in giving
- Building maintenance and repairs
- Periods of transition

PLANS FOR

- New ministry initiatives
- Large purchases
- Building renovations and expansion

At minimum, designate 5-10% (chart shows 10%) of the church budget towards building cash reserves. First, the money should be set aside to build up three to six months of operating costs. Then, when the HVAC system breaks down or the carpet wears out, you'll be able to absorb the costs without having to go into debt. After you've built up three to six months of operating costs, continue taking advantage of the positive cash flow created by your budget to save for future church goals.

GROWING YOUR SAVINGS



Once your cash reserve is built, consider growing it through an investment strategy such as laddering. Laddering simply means staggering your investments so they mature at different times. This lets you take advantage of higher interest rates while still having regular access to funds.

Rather than investing $75,000 for a one-year period and renewing each year, create a three-year ladder.



$25,000

1-year investment

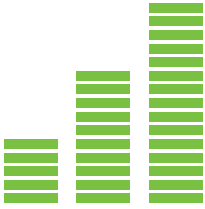
After the first year, take the maturing one-year investment and place it in a three-year investment.



$25,000

2-year investment

After the second year, the initial two-year investment matures. Put that into a new three-year investment.



$25,000

3-year investment

After the third year, the initial three-year investment matures. Place it in a new three-year investment.

Starting in year four, all of your investments will be earning the higher three-year rate with access to a third of your principle as it matures each year.

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INVEST WITH PURPOSE.
LEARN MORE.



WHAT ABOUT YOUR NUMBERS?



With so much focus on your ministry, sometimes it can be easy to overlook your personal finances. However, they are just as important to the sustainability of your ministry. Here are five quick tips to make sure you're on the right track.

Think about your future goals. Ask yourself, "What do I need to be doing now to provide for my future and the future of my family?"

Make a budget. Once you know what you want, make sure your spending matches your priorities. Be purposeful with your resources. When you budget, think about all your expenses – not just your monthly bills. Build food, clothing, travel – even Christmas presents – into your annual budget.

Save for now. After you've established your budget, you should begin to see a positive cash flow. Begin setting this money aside to create an emergency fund. This is money you set aside for the singular purpose of unexpected expenses – insurance deductibles, car and home maintenance, etc. Aim for setting aside a minimum of three to six months of income.

Reduce your debt. Focus first on higher-interest debt: credit cards, vehicles, student loans, etc. Once those items are taken care of, consider making extra payments on your mortgage. However, don't pay off your home at the expense of saving for your future. Focus instead on making sure that your overall net worth is increasing by comparing the interest rate of your debt versus the interest rate of your investments.

Save for later. Retirement may seem like a long way off. However, setting a little aside on a regular basis will go a long way. Keep in mind that money you dedicate for retirement does not mean you are saving for a life void of ministry. On the contrary, money you put towards your future can increase your capacity to invest time and resources into the Kingdom.

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52 WAYS TO SAVE



Keeping Financial STATEMENTS

Financial
STATEMENTS
reflect your
CHURCH'S
financial
HEALTH.

Obtaining properly prepared financial statements is an accounting best practice for all businesses, including churches and other non-profits.

A complete set of financial statements for a non-profit organization generally includes the following:

Balance Sheet (Statement of Financial Position): assets, liabilities, and net assets (net worth) on a stated date showing the reader where the organization is financially and where it has been.

Income Statement (Statement of Activities): revenue, including contributions, and expenses over a period of time showing the reader what resources (income) were available to complete the organization's objectives and how the resources were used (expenses).

Cash Flow Statement (Statement of Cash Flow): inflows and outflows of cash over a period of time coinciding with the Statement of Activities and Statement of Financial Position.

Obtaining regular and timely financial statements benefits your church in three ways:

1 BUDGET PLANNING

As you project income and expenses each year, reviewing past financial statements can give you a good idea of what giving might look like going forward. By understanding your current financial position, you're better able to plan for the future. For example, if you want to fund a new ministry initiative, the information provided by the statements can help you decide when the best time might be and how it might be funded. In addition, by analyzing the figures, you can discover ways to reduce expenses and increase cash flow. Because the financial statement is a reflection of financial decisions, if there are budgetary discrepancies, they can be identified and corrected.

2 ACCOUNTABILITY

Providing an accurate and timely statement of accounting protects your church by demonstrating how and when funds have been used. In addition, there may be times when givers in the congregation have questions about financial matters and will appreciate the church's record keeping.

3 QUALIFYING FOR A CHURCH LOAN

Financial statements help lenders evaluate their risk in lending to you. It's important to obtain statements on a regular basis before you're in the market for a loan, so any deficiencies can be addressed well ahead of time. When it's time to borrow, you'll want your statements to reflect a healthy financial position. For example, if your current liabilities (payables) consistently exceed current assets (cash and receivables), a lender may conclude you have a cash flow problem that could result in an inability to pay back a loan. If they are incomplete or not in a standard format, you may not be considered a good lending candidate. In addition, the amount of income, trends in giving, and how funds are spent will help you and your lender know how much your church can afford to borrow.



CHECKS and BALANCES for Healthy Church Accounting

STANDARD accounting practices HELP MAINTAIN accountability, PROTECT RESOURCES, and present an ACCURATE picture of church FINANCES.

FINANCIAL STATEMENTS

Every church should prepare (or have prepared) financial statements. However, the format may vary based on the size of the church, and the level of detail should meet the needs of the intended user: leadership, congregation, and/or potential lender. Larger churches with income nearing $1 million or more should consider having financials prepared using generally accepted accounting principles (GAAP). GAAP is a set of standards used in the U.S. to consistently report accounting information. Lenders will often require GAAP prepared financials for large loans.

HIRING A CPA

Small churches may not need the services of a certified public accountant (CPA) on a regular basis as the cost may outweigh the benefits. Instead, a knowledgeable bookkeeper may be adequate. Consider outsourcing payroll if the bookkeeper is not experienced and trained in this area. Improper payroll tax return filing can create costly tax liabilities.

As your church grows, hiring a CPA to ensure proper accounting, reporting, and compliance can be beneficial. They are required to understand current accounting practices and standards. Depending on your needs, CPAs can be hired by the church as in-house staff or services can be provided by a CPA firm. From daily bookkeeping to annual auditing, the firm can help you determine what services your organization may need. Annual or quarterly compiled statements may be sufficient for small- to medium-sized churches. For smaller churches, quarterly statements could cost as low as $350-$500. Note that not all CPAs specialize in not-for-profit or understand church operations. Do your research and find an experienced professional that understands your needs.

PLANNING FOR FINANCIAL REVIEW

Having both internal and external financial reviews maintains accountability for your church. Review financial statements regularly with the board and/or governing body of the church. In addition to internal reviews, consider a CPA review or audit. A professional review by a CPA will give a lesser level of assurance than an audit but can be adequate in certain circumstances. An audit or review not only provides assurance on the finances of the church, but it may also be a requirement for obtaining a loan or grant.

At minimum, churches should consider periodic review of internal controls and accounts susceptible to fraud or mismanagement. An independent third party can provide these “agreed upon procedures” once the desired procedures are identified. Typically, they are performed by a CPA.

PROTECTING AGAINST FRAUD and EMBEZZLEMENT

INTERNAL CONTROLS

By following recommended prevention methods and implementing internal controls, you can greatly reduce the risk of fraud occurring at your church. Areas most likely to be susceptible are cash accounts (including tithes) and credit cards or other lines of credit. Important prevention methods include the following:

- The signers of checks must not be the person authorizing the expense.
- Require two individuals to sign checks of more than a predetermined amount, and ensure that the signature documentation (signature card) held by the bank shows this restriction.
- All disbursements should be made by pre-numbered checks and must be accounted for on a weekly basis.
- Require written consent of two individuals to approve the transfer of large sums into or out of accounts, including line-of-credit draws.
- Bank reconciliations should be approved by someone not authorized to sign checks or make the deposit and should be done promptly. It is recommended to look for checks out of sequence.
- Every check written should have written documentation (check request/receipt/invoice) except for payroll checks.
- Invoices and check requests must be marked paid with date and check number and filed.
- Do not sign blank checks in advance.
- Do not use signature stamps.
- Have a Credit Card Policy and approval process for purchases.
- Require those responsible for the handling of money to take at least a one-week vacation from duty each year, and have someone else fulfill the duties during that time. Consider resistance to this vacation a red flag.
- Engage an independent auditor to perform a compilation or review of annual financials and controls.

- There should be two unrelated cash counters every service, with each completing an Offering/Counter's Sheet. Have each counter verify the other's forms.
- Rotate the money counters with different individuals each week.
- Counting should be done behind a locked door. It is also recommended to have a camera overlooking the counting area.
- Checks should be stamped "For Deposit Only" immediately.
- Deposits should be made as soon as possible. Place deposits in a locked bank bag and place into a safe if you can't make the deposit immediately. Use of a night depository is recommended if bank is closed.
- Stow petty cash in a safe. Establish a procedure for its use and disbursement, minimizing access and treating it like a bank account with regular audits and reports.

Watch as Dr. Rich Hammar and Jerry Sparks discuss church fraud.



Key TAKEAWAYS

Your budget is the financial foundation for your church. It is a necessary tool to reach your church's goals and keep you accountable as you use the resources God has given you.

Saving is crucial to ministry protection and growth. Your cash reserves provide a safety net when unexpected expenses arise and enable you to explore new areas of ministry.

Financial statements reflect the financial health of your church. This accounting best practice provides an accurate and organized picture of your finances.

PART 2

Be READY



Once you put the right financial practices into place for a healthy financial future, consider ways to maintain a growing ministry. A big factor in ministry sustainability is risk management. More than just helping you avoid an expensive lawsuit, risk management is about anticipating the unexpected. Learn how to identify risks, implement smart policies, and get the right insurance coverage so you can be ready.



HOW TO MANAGE CHURCH RISK

INSURANCE is **not a** **SUBSTITUTE** **for** quality **RISK** management.

MANAGING **RISK**

Churches are brought to court for two primary reasons: sexual incidents involving a minor and property disputes with an insurance carrier. Fortunately, becoming involved in such cases can be minimized through proper planning and implementation of safeguards. As pastor, it's helpful to think of yourself as a risk manager for your church and its people. Managing risk is an ongoing process, but it can be summed up in the following two steps.

1 Identify POSSIBLE RISKS

Develop a habit of looking for potentially risky areas within your facilities and ministry activities.

PHYSICAL INSPECTIONS

Walk through your facilities and property looking for those things that may pose a hazard. Slipping, tripping, and falling accidents account for the vast majority of liability insurance claims.

CHECKLIST AND PROCEDURE REVIEWS

Establish a variety of checklists and implement them into your procedures. Common checklists include vehicle inspection, kitchen safety, property inspection, and nursery check-in/check-out procedures. Many church insurance carriers offer sample forms churches can use. Check with your agent to see what's available.

INSURANCE POLICY REVIEWS

Evaluate policies on a regular basis as your insurance needs may change from year to year.

LEASES AND CONTRACTS

Ensure that the contract language does not put liability onto your ministry. These may not all be written to the advantage of your ministry.

2 Take Steps to CONTROL RISK

It's important to assess the likelihood of an accident and its potential financial impact on your church, such as increased premiums, damaged reputation, financial settlements, and legal fees. Here are a few methods to begin controlling risk:

PREVENTION

Stop or interrupt the chain of events that could lead to an accident or a loss. By reviewing ministry procedures and developing protective policies, you can often prevent problems.

REDUCTION

Steps may be taken before or after a loss has occurred to minimize the damage and reduce its impact. For example, to minimize the potential liability of having a child abused, run background checks and contact references for potential workers, and have physical documentation if an accusation occurs.

SEPARATION AND DUPLICATION

Regular backups should be made of important information, such as tax documents, giving reports, licenses, personnel files, insurance policies, property inventory lists, and other sensitive data. In addition, files should be duplicated and stored off-site in the event your building is damaged or destroyed by fire or other disaster.

TRANSFERS

You can physically transfer risk by allowing another individual or entity to perform duties. For example, by hiring local law enforcement officers to provide security for your church, liability transfers from your church to them when they respond to an emergency. You can also transfer risk through a contract. For example, an indemnity agreement means another entity agrees not to sue and to indemnify (protect) you in case of an accident. Insurance is a contract that transfers the risk you insure onto the insurance carrier.

TIP: Do NOT sign a contract that transfers risk and liability to your organization, as they can often be negotiated or rewritten to more favorable terms. A certified risk manager can help you rewrite the contract.

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RISK MANAGEMENT GUIDE





CHURCH POLICY BASICS

Having **solid** risk **MANAGEMENT POLICIES** enables you to **PROTECT PEOPLE, PREVENT** incidents, and **PROVE** to a jury your church extended a reasonable **LEVEL OF CARE** if you are sued.

POLICY **BASICS**

You've been entrusted with providing a safe place for people to learn, worship, and minister. Comprehensive church policies both maximize the safety of your congregation and minimize liability for your church. Create a policy for each area of risk based on recommended best practices to both protect your congregation from harm and property from damage.

SIX policies every CHURCH SHOULD have

1 Abuse Prevention for Minors

Protect children, teens, and your church with the following safeguards:

- Require a written application for all employees and volunteers who work with minors and anyone with a key to the church.
- Run a background check that includes a National Criminal Search and National Sex Offender Registry. Background checks should be completed on anyone who works with minors, no matter how long they've been in the church.
- Check two references on all workers with children. These references should have the ability to assess if the individual is suitable to work with minors.
- Require teenage volunteers to provide personal reference letters before working with other minors.
- Establish a two-adult rule. No fewer than two adults must be present at all times when supervising a minor.
- Establish a six-month rule requiring applicants to be in good standing with the church for at least that long before working with minors.
- Conduct regular training on abuse prevention/response for all staff and volunteers.

2 Cell Phone Use

All church employees, including the pastor and staff, should be required to sign a written agreement prohibiting the use of hand-held cell phones and other devices while driving for church business and while driving church-owned or rented vehicles.

3 Social Media Use

A good policy will require documenting current and intended social media use, implementation of safeguards such as disclaimers and confidentiality protection measures, employee training, and monitoring of all church and church employee social media use.

4

Emergency Response

Developing an emergency response plan can help protect your congregation from harm. It is recommended to establish a church security and safety team. Their responsibilities should include formulating emergency action plans, training staff and volunteers how to carry out plans, and monitoring premises.

A few best practices:

- Get law enforcement involved when first developing a security team and safety policies so efforts can be coordinated with them.
- Hire local uniformed police officers to be your security during services. When they respond to an emergency, they cease to be an agent of the church and become a public officer, removing your church's liability.
- If you allow security team members to carry concealed weapons, develop a careful vetting process. Require all carriers to be Concealed Carry Weapons (CCW) certified, have them go through the same training requirements as local law enforcement, and require ongoing annual training.

5

Transportation

Accidents can be the result of unsafe vehicles, poor driving conditions, distracted drivers, and a lack of training. Develop pre- and post-trip vehicle inspection checklists, and make sure all drivers complete the checklists. Ensure all vehicles are regularly maintained. Finally, consider requiring all drivers to attend a defensive driving course every few years. Many insurance companies will provide online defensive driver training.

6

Facilities Use

If your church allows outside organizations or groups to use your facilities, a signed Facilities Use Agreement Form should be required, in which they agree to indemnify (protect) your church from liability in the event someone is injured at your facility. Otherwise, your church may be held responsible for medical bills and other costs.

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BROWSE THE RISK MANAGEMENT RESOURCE LIBRARY.





INSURANCE COVERAGE

INSURANCE ENABLES
your church
to pay for
UNEXPECTED
events without
financially crippling
YOUR MINISTRY.

INSURANCE

Every church needs two types of insurance: liability and property. Liability covers the action that could leave the church liable for damage to others (injuries, property, or reputation) while property covers the things you own.

LIABILITY INSURANCE



Here are seven of the most important liability coverages for churches:

GENERAL LIABILITY

As a best practice, a church should carry at least $1 million in general liability coverage per occurrence.

SEXUAL MISCONDUCT LIABILITY

It is recommended that a church has a minimum coverage of $250,000 per occurrence and should strive to obtain higher limits if at all possible.

DIRECTORS, OFFICERS, AND TRUSTEES LIABILITY (DOT)

This is coverage for decisions made by your board, officers, or trustees and usually must be purchased separately. If you have influential people serving in this capacity, coverage should be obtained. It is recommended to have a $1 million minimum limit.

BUSINESS AUTO

Any time a church owns its own vehicles, coverage is necessary. It is recommended that churches have a $1 million liability limit on an auto policy. For the average church, this is often the greatest exposure for loss.

HIRED AND NON-OWNED AUTO

In the event a church member or employee uses their personal vehicle or a rental vehicle on church business, the church will have liability coverage. This limit should be a minimum of $1 million.

PASTORAL COUNSELING LIABILITY

This coverage provides for a claim arising from pastoral direction or counseling. This limit should be a minimum of $1 million.

WORKERS' COMPENSATION

This covers injuries to the pastor or church employees while in the course of employment. It covers 100% of medical bills and a percentage of lost wages until the injured can return to work. Recommended coverage amounts vary by state.

Discuss all aspects of your ministry and any possible exposures with your insurance agent.

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CHURCH INSURANCE GUIDE



5 WAYS TO PROTECT BOARD MEMBERS FROM LIABILITY

The decisions and operations of a church board can expose board members to personal liability and even lawsuit. Here are five ways to help protect them:

1 UNDERSTAND YOUR STATE'S CHARITABLE IMMUNITY LAWS

Some states provide charitable immunity for volunteers, which may include church board members. The purpose of this law is to encourage them to serve by reducing their liability exposure. Check to see if your state provides charitable immunity and whether its definition of "volunteer" covers church boards.

2 AVOID GROSS NEGLIGENCE

In most states, charitable immunity laws do not protect against gross negligence, which is defined as any act or omission that is intentional, willfully negligent, or committed with disregard or indifference towards the safety of others. For example, at one church, the board members were personally sued because of an incident that occurred at the church between a minor and an adult known to be a past sexual offender. The plaintiff alleged that the church board failed to provide and enforce a sexual offender policy after knowing a sexual offender attended the church – a failure that amounted to gross negligence.

3 INCORPORATE YOUR CHURCH

Maintaining a corporate status with your state has the benefit of providing personal liability protection for your board members and other church leaders. Check with your Secretary of State's office for information on becoming incorporated and to update your status annually, or as required.

4 FOLLOW YOUR OWN RULES

Church bylaws can provide crucial legal protection, as long as you operate by them. If there is a legal dispute, a court will look to the rules established in the bylaws for guidance. In addition, the bylaws should include provisions that indemnify (protect) board members from personal liability for board decisions. An attorney can assist you in amending the language.

5 OBTAIN DIRECTORS, OFFICERS, AND TRUSTEES (DOT) INSURANCE

If someone brings legal action against a board member, defense costs could be steep. In addition to paying for claims that may arise, DOT insurance covers the cost of legal fees.

PROPERTY INSURANCE

Based on the needs of your church, property coverage will fall into one of the following categories:

REPLACEMENT COST

This is the option most churches will want to secure. It will provide enough coverage to rebuild facilities or replace property with new items of like kind and quality.

ACTUAL CASH VALUE (ACV)

Churches might choose ACV if their facilities are in disrepair or the church would never rebuild that building type. Agents determine the value by taking the amount to replace the building or contents minus the accumulated depreciation.

COINSURANCE

This is the specific percentage of insurance to the value of the property insured. For instance, most companies require that a coinsurance rate of 80 or 90 percent of the property value be in place at the time of a loss. If the property was worth $100,000 and the coinsurance requirement is 80 percent, there would need to be at least $80,000 of coverage limits available to pay the claim without a penalty. Ask your agent for “Agreed Value,” which waives any coinsurance penalty.

Tip: It is common for policies to exclude floods and earthquakes. Read exclusions carefully.

categories continued

DETERMINING THE VALUE OF YOUR FACILITY

Building coverage limits purchased by a church should be the cost to replace or rebuild the facilities with contract labor and new materials. It is the responsibility of the insured (the church) to make sure it has adequate limits to replace the building and its contents. To determine the value of the building, include everything that is permanently attached. Pews, video projectors, sound systems, and appliances that are anchored to the building are factored into the building value. When figuring the value of business personal property, include all items that are not part of the building, such as chairs and portable equipment. Keep a regularly updated inventory list of these items in a secure location so you can account for items added over time. Your agent can help you accurately calculate replacement cost.

Tip: Take photos or a video of each room in the church and store the files off-site.

ADDITIONAL PROPERTY COVERAGE

It is important to note that standard property insurance does not always cover every aspect of your property and belongings. If you need coverage outside your standard plan, there are additional plans that cover these special circumstances. Make sure to check with your insurance carrier to determine what additional property coverage your ministry might need to consider.

HOW TO PREVENT PROPERTY DISPUTES

Adequately insuring your property is the best way to prevent a dispute with your insurance carrier when an incident occurs (one of the two most common reasons for church litigation). Your coverage amount should be enough to replace the church and should be applicable to the types of loss your property may encounter.

THREE TIPS FOR PREVENTING A PROPERTY DISPUTE:

1. Have your insurance agent determine the replacement cost of your building, and then insure your property for the estimated replacement cost.

2. Have special form coverage on your policy. Are you at risk of a flood, earthquake, or hurricane? Ask your agent about these coverages, exclusions, and deductibles.

3. Ask your agent about Building Ordinance coverage and how this applies in your city. Some cities have ordinances that state if a building is damaged more than 50%, it cannot be rebuilt or, if rebuilt, must be brought up to current building codes. Understanding these ordinances is vital to having the right coverage for your property.

KEY MAN INSURANCE

A key man insurance policy ensures the continuity of your ministry in the event of the untimely death of a key person by placing a life insurance policy on them owned by the church. This gives time to conduct a proper search for their replacement as well as offsetting any loss of donations. If the church is mortgaged during this transition period, the policy also shows financial strength to the lender.

HOW MUCH KEY MAN COVERAGE DO WE NEED?

Consider the following two areas when applying for key man insurance:

DEBT

At maximum, insurance companies will insure up to 70% of your total debt. For a church with $1 million in loan(s), aim for $700,000. Depending on a church's overall debt load, some lenders may require a portion of the key man insurance benefit to be assigned to them.

MINISTRY OPERATIONS

It can take up to four years to financially recover from the loss of a dynamic pastor. It is usually the second and third year after a pastor's death before a church begins to feel the full effect of the loss. For that reason, it is recommended to obtain coverage based on the church's current annual income. At maximum, an insurance company will cover 70%. If your income is $1 million, aim for $700,000 in coverage.

Using the above examples, the church would need a total of $1.4 million in key man coverage.

WHAT ABOUT PERSONAL LIFE INSURANCE AS AN ADDED BENEFIT?

A church may purchase a separate life insurance policy for the pastor in addition to key man insurance. This benefits the pastor's family by allowing the pastor to own the policy and name the beneficiaries. It also makes the policy portable. It should be a separate policy and the church should 1099 or W-2 the pastor for the premium. This alleviates the possible taxation of the death benefit to the beneficiary. At minimum, it is recommended to obtain 5-10 times the pastor's salary, plus 70% of his or her personal debt. Also, consideration can be given for the number and ages of children and spousal income.

KEY MAN INSURANCE

70% of debt + 70% of annual income

PERSONAL LIFE INSURANCE

5-10 times pastor's annual salary + 70% of debt

CHOOSING an Insurance Agency

Choosing an insurance company to provide coverage for your ministry is an important decision that deserves careful thought. It is recommended for churches to seek coverage with an insurance company that has A.M. Best's credit rating of A- or better, financial size VI or higher, and an agent that is knowledgeable about insuring churches.

Furthermore, developing a good relationship with your insurance agent is critical. Openly discussing your needs and current situation with them will enable you to better prepare for future scenarios. Keep in mind your agent is in the best position to clarify coverage, help you understand terminology, and keep your ministry protected. They are your best ally should the unthinkable happen.

The General Council of the Assemblies of God has a customized insurance program for AG churches underwritten by Church Mutual. Church Mutual, the largest church writer in the world, is an A-rated company with over 100 years of experience in insuring churches.

Key TAKEAWAYS

Insurance is not a substitute for quality risk management. Managing church risk is an ongoing process of identifying and controlling risk.

Smart policies are an essential component of managing risk. They enable you to protect people, prevent incidents, and prove to a jury your church extended a reasonable level of care if you are taken to court.

Every church needs two types of insurance: liability and property. Insurance enables your church to pay for unexpected events without financially crippling your ministry. Property insurance should be based on your facilities' replacement cost value. Liability insurance should include sexual misconduct, pastoral counseling, and directors and officers coverage.

PART



What's NEXT



Financial health and an understanding of God's unique vision for your ministry is the foundation for growth. For many churches experiencing growth, the next step is creating more space for more people, whether it's renovating an existing building or planning a new construction project. Understanding best practices, budgeting guidelines, recommended financial ratios, and common building challenges will help ease uncertainty and equip you with the knowledge you need for healthy growth.

Facilities should ALWAYS FOLLOW ministry.

GETTING STARTED

DEFINE YOUR VISION

Begin with the vision of your church. What are the core needs of your ministry? Where are your largest growth areas? To plan a project that will meet the future needs of your ministry, your goals need to be well defined. By articulating the vision, you will have a benchmark to make decisions. In other words, let ministry lead your church expansion project so your facilities meet both your current and future needs.

MAXIMIZE YOUR CURRENT SPACE

Before you commit to building, ensure you are maximizing your current space. Assess how your facilities are being used and search for creative ways to better utilize them. Something as simple as adding additional services or making minor renovations may provide additional time to plan and save for a larger expansion project that may better meet your future goals.

CONSIDER YOUR FINANCIAL POSITION

Can your church afford to build right now or would it be best to wait? Prudent planning includes making sure you are in a healthy financial position before beginning any type of expansion project.

6 questions to CONSIDER before expanding

ONE
What is the unique calling of your church?

TWO
Are the vision and goals of your ministry well defined?

THREE
Are you fully utilizing your current space?

FOUR
Have you considered alternative options to expanding?

FIVE
How will your new facilities be shaped by your church vision?

SIX
Can you afford to expand?

DECIDING to BUILD new or REPURPOSE

As you **define** the **BIG PICTURE** for your **ministry** keep **FACILITY** **options** **OPEN.**

FACILITY VERSATILITY

From car dealerships and movie theaters to grocery stores and fitness centers — buildings of all shapes and sizes are being repurposed as church facilities.

Pastor Matthew Barnett's Dream Center in Los Angeles is housed in a former hospital built in the 1920s.

A church near Phoenix, Arizona is currently remodeling a fitness center for its new facility.

As you determine the best strategy for your church, keep the following considerations and trends in mind.

Building from the ground up is not your only option for church expansion.

COST OF BUILDING VS. BUYING

One of the results of a down economy and depressed real estate market is an increased supply of vacant commercial buildings available to purchase or lease. The price of existing square footage has dropped over the last few years. Conversely, the cost of new construction has risen as fuel, materials, labor, and insurance rates have increased. As a result, it may be cheaper to buy and remodel or lease than it would be to build new.

FUTURE EXPANSION POTENTIAL

Purchasing with the future in mind is exactly what Calvary Church chose to do. In 2010, when they outgrew their traditional brick building near Toledo, Ohio, they purchased and remodeled an 18-plex movie theater. Their initial renovations focused on transforming the smaller theater rooms into nurseries, kids church, and classrooms. For Calvary, it was the perfect facility for their new church home because it offered plenty of restrooms, public connection space, a built-in café, a well-lit and ample parking lot, and several rooms that can be remodeled and finished as the church continues to grow.

STEWARDSHIP

Factor in both current usage and future marketability of any type of facility you may be considering. A traditional church facility is often a single-purpose building for which the market is very limited, whereas a commercial or multi-purpose building may have a broader appeal. Operating under the conviction to avoid investing millions into a traditional worship space that would sit empty most days of the week, Saddleback Church grew to thousands meeting in non-traditional buildings.

GREEN CHURCHES

Some churches are choosing to focus on sustainability by building an eco-friendly or “green” facility, incorporating LEED (Leadership in Energy and Environmental Design) principles into their building. By its very nature, repurposing an existing facility is an eco-friendly approach. If you are considering environmental factors as you plan, check with your local municipality to see if they offer incentives.

DEFINING Your PROJECT



The **OUTCOME** of **good** planning should be a **clearly DEFINED** project scope that meets **MINISTRY NEEDS** and fits within a **BUDGET you CAN AFFORD.**

A contractor, architect, and lender will provide expertise so you can better define your plans.

CONTRACTORS AND DESIGN-BUILD FIRMS

WHAT TO REQUEST: Initial project identification and estimation
Many firms will help define and estimate a project without up-front costs in exchange for an opportunity to be your builder when the project progresses.

Tip: Never enter into a long-term contract if the project is not yet defined.

ARCHITECT/PROFESSIONAL DESIGNERS

WHAT TO REQUEST: Preliminary design
A preliminary design will help you establish project parameters. Although this won't give you firm pricing for a project, it is usually enough to determine a cost range.

Tip: Be careful not to let the architect's design be the driving force. Instead, let ministry need and your church's vision drive the project.

LENDERS

WHAT TO REQUEST: Underwriting standards and needed documentation
Your initial call will help you understand their underwriting standards as well as the documentation you'll need to provide to determine initial loan qualification. Most lenders request:

- Financials – Three years of financial statements plus a current year-to-date financial statement.
- Appraisal or Broker's Opinion of Value – Current market value of your property.

Tip: A good lender will not simply talk about how much you can borrow, but rather, how much you *should* borrow.

Hiring a professional church construction consultant to lead you through the construction process can save you tens of thousands of dollars by helping you define the project scope, stay on budget, and avoid pitfalls.

bud·get

noun

DEFINING Your PROJECT budget

IDENTIFY FUNDING SOURCES

An initial project budget can be determined by evaluating and combining three potential sources of funds:

1. **Cash You Have -** The money you have set aside for the project. Make a clear distinction between this money and your cash on-hand for operating expenses and/or emergencies. Do not deplete your operating cash in order to build, as this compromises the stability of your ministry.

2. **Cash You Can Raise -** The amount you could potentially raise from your congregation and ministry partners to help fund the project. Keep in mind that not all pledges are met. It's wise to count only on funds you have in hand.

3. **Cash You Can Borrow -** Your borrowing capacity in light of your ministries, missions giving, salaries, etc.

HOW TO CALCULATE BORROWING CAPACITY

Your true borrowing capacity is the amount you can easily pay back without cutting ministry initiatives or staff. Some lenders identify all your income as a potential debt repayment source. This is dangerous, as it could compromise your financial commitments to various ministries. Instead, consider the following questions:

1

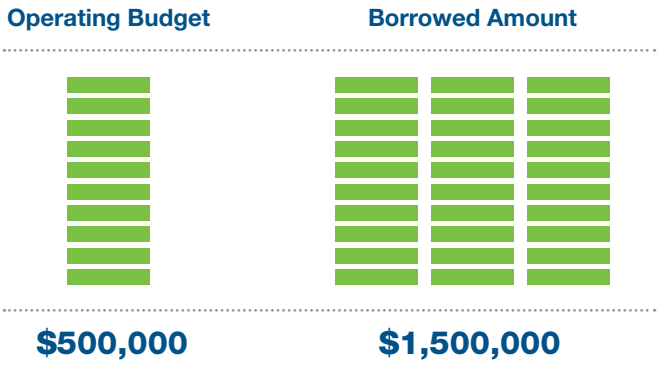
What do you need to borrow?

Start with how much cash you have saved. Add the extra funds you can set aside, raise through a capital campaign, or save by cutting nonessential expenses. This cash on-hand will reduce the amount you will need to borrow. Then calculate how much money you can safely afford to borrow to complete the project.

2

What can you afford to borrow?

Typically your mortgage payment should not exceed 33% of your undesignated income. A simple way to estimate the amount your church can borrow is to multiply your annual undesignated income by three. In other words, a church with an annual undesignated income of $500,000 can generally borrow up to $1.5 million. Partner with a trusted lender early in the planning process to avoid overborrowing and/or ending up with an incomplete project.



DIG DEEPER

CALCULATE YOUR BORROWING CAPACITY. TAKE THE MORTGAGE RISK EVALUATION.

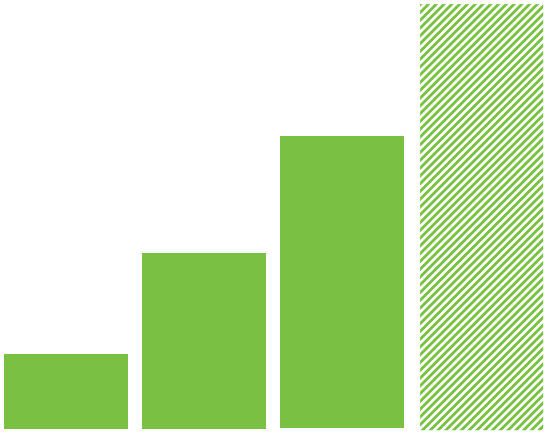
IDENTIFY project COST

Careful cost planning can help you complete a building project successfully without overspending. Consider three main expense categories:

1. **HARD COSTS**
 construction labor and material
2. **SOFT COSTS**
 professional services, fees, permits, etc.
3. **FFE COSTS**
 furniture, fixtures, and equipment

Building projects often exceed the construction budget because soft and FFE costs are not considered. Estimate soft and FFE costs first, and then design the project around the remaining hard cost amount.

In addition, cushion your final budget with a contingency factor of roughly 10% for unforeseen costs. Revisit your budget and make necessary adjustments as project details are defined.



RAISING Funds

A successful **capital** campaign **IS ABOUT** SHARING the **church's** vision **CLEARLY** so people **CAN** understand it, **GET EXCITED** about it, **AND** **have an** **OPPORTUNITY** to support **IT.**

Capital fundraising is an effective way to help fund your project, minimize debt, and unite your congregation behind the vision.

DESIGNING YOUR CAMPAIGN

Staff and volunteer support is crucial to a successful campaign. Work with your team to design the campaign around two questions:

1. How can we make it both fun and effective?

2. How can it be accomplished in a way that won't drain our team and congregation?

HERE ARE A FEW TIPS TO HELP YOU GET STARTED:

Learn From the Success of Others. Find churches that have had a great experience and ask them what they feel were the keys to their success. Learn from others and see what elements of their campaign might fit with your church culture. Do your research before moving forward with your own strategy.

Let God Lead. Make sure God's favor is on your project and it is in His timing. You want to look for a convergence of resources, people, and opportunity. Ask for God's peace and wisdom to guide you throughout the process. Don't move forward without God in the lead.

Tell Your Story. Begin by sharing the vision, opportunity, and stories of what God is doing at the church with your congregation. Break down the big picture into smaller stories that demonstrate how God is at work. It's good to express the need, but surround that need with the ministry vision.

Communicate Creatively. Invest in creative communications that inspire people. Make sure you allow enough planning time and capacity to implement a comprehensive communications strategy. The goal is to share your vision as clearly as possible.

Utilize Electronic Giving. Incorporate online giving into the campaign to make it simple for people to give to the project.

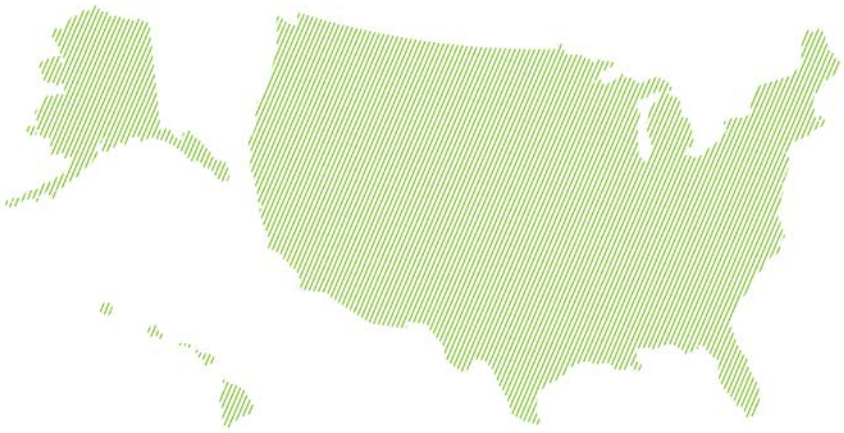
TIMING YOUR CAMPAIGN

Count on needing three months of preparation to launch your campaign. However, very large projects may require more lead time. If your church is building, the campaign should coincide with the momentum of the building timeline. Start the campaign before the building has begun but not so far in advance that you risk losing excitement about the project with your congregation. It is usually easiest to raise money during construction. Use milestones and events like groundbreaking as part of the fundraising strategy to help maintain momentum. Once a building is complete, it can be more difficult to bring in funds. As you plan the timing of your campaign, avoid spending pledges that have not yet been received.

MINIMIZING BURNOUT

Implementing a capital campaign can place a heavy load on your team. You may already be adding new ministries and responsibilities to your staff. Pushing your staff towards higher limits can either be a recipe for burnout or an opportunity for growth. To help minimize burnout, consider consulting with an experienced capital campaign team. They can help you develop a custom strategy for the unique vision of your church.

WE HELP CHURCHES ACROSS THE COUNTRY MAXIMIZE FUNDRAISING EFFORTS. CONTACT US FOR MORE INFORMATION.





FINANCING your PROJECT

DECIDING TO BORROW

Borrowing is a tool that, when used wisely and effectively, can help your ministry as it continues to grow. Be aware that too much debt can inhibit your ministry. Borrow only what your church can afford and then pay it off as quickly as possible.

IT IS BEST NOT TO BORROW IF:

- Contributions or attendance are declining
- The church board is divided about borrowing
- The funds will be used to address a cash shortfall
- You are attempting to cover operational expenses
- It is an alternative to “belt-tightening”

YOU ARE A GOOD BORROWING CANDIDATE IF:

- You are prudently financing a ministry expansion
- Church finances and ministry are healthy
- Financial records are accurate and up to date
- Giving and attendance show positive trends
- Leadership is strong and stable

DIG DEEPER

DOWNLOAD THE LOAN PROCESS CHECKLIST.



FINDING a lender

Evaluate lenders on the stability of their lending terms and how they provide for your current and future ministry needs. Consider the following best-practices:

Find a lender who understands the dynamic nature of church finances, budgets, and ministry. Your lender is more than just a financing institution; it is a ministry partner.

1 Borrow for the longest period possible.

Having a longer schedule of payments and, therefore, lower payments can give you the flexibility in your budget for cash-flow fluctuation. No matter how accurate your projection, some months your income will be lower than others. Don't let your ministry suffer because you're committed to a larger loan payment.

2 Pay off your loan as quickly as possible.

As you shop for loans, make sure you don't have a prepayment penalty so you can take every opportunity to make extra principal payments on your loan and save on interest in the long run.

3 Understand what interest rate and terms may mean for you.

In general, church loans (or commercial loans) with extremely low interest rates have short loan terms of 5 years or less. These are often referred to as balloon notes. With this type of loan, you are expected to pay your remaining balance at the end of the loan term. To make this balloon payment, churches usually need to refinance. This cycle can cost much more than you might expect. Here are some reasons why:

Balloon notes are often promoted as "fixed rate loans," but that phrase is somewhat deceiving. It has a positive connotation in the residential market when the loan term is 15 or 30 years. However, on a 5-year balloon note, the rate is only fixed for that 5-year term.

- If you refinance a balloon note when it's due, you have to pay closing costs again (including any origination fees and third-party fees like appraisals and surveys).
- When you refinance your balloon note, your new loan is subject to current interest rates. You have no guarantee or cap on how much your rate may increase with the new loan, and there is no way to predict future interest rates.

In the commercial market, the benefit of an adjustable rate loan is that you know up front how high the rate is allowed to go. Plus, the loan is guaranteed to remain intact while you repay the full balance, no refinancing required.

- The bulk of the interest is paid at the beginning of the loan, so refinancing a balloon note is like starting over. You will again be paying more interest and very little principal.
- When you refinance, you must qualify for the new loan. If there are changes in your property value, revenue, personnel costs, etc., you could find yourself in a different situation than when you borrowed the money the first time. In unfortunate cases where a bank can't or won't refinance a church loan, the church is left scrambling to find a new lender so they can keep their property.

WHAT WOULD you say to PASTORS of GROWING churches CONSIDERING MINISTRY financing?

Eight leading pastors provide their answers in this video.



UNDERSTANDING COMMON CHALLENGES

No matter what type of building project you undertake, you will face challenges. Here's an overview of the most common issues and recommendations:

ZONING

When purchasing an existing building or land, confirm that churches are considered an allowable use by law. If not, you may need the property rezoned, which can take both time and money with no guarantee of approval. You will also need to look at the zoning of your current facility if your expansion requires a building permit—zoning codes may have changed.

LAND USE CODE

This extends beyond zoning to include requirements such as green space, landscaping, lot coverage ratios, square footage, height, setbacks, and many other issues. Consult a local civil engineer early in the planning process. They can assist with the initial feasibility of your project by defining the physical parameters for expansion.

BUILDING CODE

Building codes ensure the minimum level of structural and mechanical integrity during construction and remodeling. For example, occupancy load codes, which affect the construction and altering of a building, are especially applicable if you are purchasing and renovating an existing building.

PROJECT MANAGEMENT

Beware of the tendency to underestimate the time, energy, focus, and resources a building project demands. Even if you are hiring a contractor, it is recommended that someone in your church or representing your church be appointed as the primary contact for project management and administration from the church's perspective.

DIG DEEPER

WATCH DR. RICHARD HAMMAR'S ADVICE ON ZONING.



PHASING YOUR MASTER PLAN

When you start a building project, it can be difficult to imagine the finish line. Having a defined master plan helps ensure the completion of your project. Phasing lets you complete the master plan one step at a time by breaking it into realistic, affordable parts. In this way your entire project becomes easier to fund and manage as you work towards completing the big picture for your ministry.

DIG DEEPER
FREE DOWNLOAD
CHURCH CONSTRUCTION 101



Key TAKEAWAYS

Facilities should always follow ministry. Take time to define the vision and needs of your ministry, fully utilize current space, and consider your financial position. Take advantage of contractors, architects, and lenders to help plan a project that meets your needs and fits within a budget you can afford.

Smart budget planning considers cost against available funding. Consider both hard and soft costs. Evaluate your funding sources including cash you have, cash you can raise, and cash you can borrow. Generally, your true borrowing capacity should be no more than three times the church's annual undesignated income.

Borrowing is a tool that can help your ministry as it grows. By understanding interest rates, borrowing for the longest period possible, and paying off your loan quickly, you can take advantage of the additional funding a loan can provide to help your ministry grow.

A FINAL WORD

It's our desire to see every church thrive financially. As you establish and maintain a solid financial foundation, we believe God will enable your ministry to be fruitful and effective for many years to come. For more information, visit **www.agfinancial.org** to learn about our services and solutions and take advantage of additional resources designed to benefit your ministry.

Stay up to date on the latest news and financial resources for your ministry by subscribing to **email updates here.**

If you found the information in this guide helpful, please share it.





AG Financial Solutions℠

RESOURCES

PART I THE BOOKS

TOOLS

- Church Budget Template
- Ladder Investment Calculator

ARTICLES

- Navigating the Church Budget
- Church Finances Part I: Budgeting Tips
- Church Finances Part II: The Importance of Financial Statements
- Getting the Most from Your Investments: A Laddering Strategy

RESOURCES

PART 2 BE READY

TOOLS

- Risk Management Guide
- Risk Management Resource Library
- Church Insurance Guide

VIDEOS

- Risk Mgmt LIVE with Dr. Richard Hammar and Jerry Sparks
- Why Is Church Risk Management Important?

ARTICLES

- Why a Cell Phone Policy is Critical
- Creating a Social Media Policy for Your Church
- Church Shootings: Who's Liable?
- How to Make a Bullet-Proof Emergency Plan that Reduces Church Risk
- Churches: 6 Steps to Keep Your Kids Safe
- Risk Management Resource: Facilities Use Agreement

RESOURCES

PART 3 WHAT'S NEXT

TOOLS

- Church Construction White Paper
- Loan Process Checklist
- Barna Group Research on Churches, Pastors, and Giving
- Mortgage Risk Evaluation

VIDEOS

- Pastor Insights: Finding the Right Church Lender
- The Basics of Church Construction and Financing Webinar
- Dr. Rich Hammar's Advice on Zoning

ARTICLES

- Managing a Church Building Project: A Pastor's Perspective
- How to Shop for a Church Loan
- What Is Your Church Loan Really Costing You?
- How to Know When to Refinance Your Church Loan
- 5 Questions Your Church Lender May Ask
- 6 Common Church Loan Pitfalls
- 12 Questions to Ask When Shopping for a Church Loan
- Church Construction 101: Getting Started
- 7 Steps Towards a Successful Church Construction Project
- How Do You Know If It's Time to Launch a Capital Campaign?
- How Electronic Giving Can Boost Church Generosity